

Message Text

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ACTION NEA-10

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CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 /092 W

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 2623

C O N F I D E N T I A L TEHRAN 7037

E.O. 11652: GDS

TAGS: ECON, EFIN, EINV, IR

SUBJ: ECONOMIC OUTLOOK FOR CURRENT IRANIAN YEAR

REF: (A) TEHRAN 5672 (B) TEHRAN 5491 (C) TEHRAN A-127

1. AS THE EMBASSY HAS PREVIOUSLY REPORTED (REF C) OUR BEST ESTIMATE FOR OIL EXPORT EARNINGS DURING THE IRANIAN YEAR (1354) ENDING MARCH 20, 1976, IS AROUND \$20 BILLION WITH AN ADDITIONAL \$2 BILLION IN OTHER CURRENT ACCOUNT RECEIPTS; TOTAL FOREIGN EXCHANGE EARNINGS WOULD TOTAL \$22 BILLION. WE THINK \$14 BILLION IS A REASONABLE ESTIMATE FOR EXPENDITURE ON IMPORTS DURING THIS IRANIAN YEAR, PLUS \$2 BILLION IN OTHER CATEGORY CURRENT ACCOUNT PAYMENTS, COMING TO A TOTAL OF \$16 BILLION AND LEAVING A NET CURRENT ACCOUNT SURPLUS OF ABOUT \$6 BILLION. A CAPITAL ACCOUNT DEFICIT OF \$3 BILLION (SEE REF C) WOULD LEAVE A \$3 BILLION SURPLUS WHICH, ADDED TO NET TOTAL FOREIGN EXCHANGE RESERVES AT THE END OF IRANIAN YEAR 1353 OF \$7 BILLION, WOULD BRING THE NET GOLD AND FOREIGN EXCHANGE LEVEL TO \$10 BILLION ON MARCH 20, 1976.

2. WE ALSO HAVE SEEN AN ESTIMATED RESERVE FIGURE AT THE END OF 1354 OF \$15 BILLION. WE THINK THIS IS TOO HIGH.

3. AS ALSO PREVIOUSLY REPORTED (REF B), WE THINK THERE ARE THREE

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MAJOR REASONS BEHIND CURRENT GOI OFFICIAL LINE THAT DEVELOPMENT

MAY HAVE TO BE SLOWED DOWN BECAUSE OF A SHORTFALL IN FOREIGN EXCHANGE EARNINGS THIS YEAR:

(A) GOI ACCEPTANCE OF THE FACT THAT MAJOR INFRASTRUCTURE AND OTHER BOTTLENECKS IN THE ECONOMY WILL IN ANY CASE PREVENT THE COUNTRY FROM ATTAINING DEVELOPMENT GOALS AS RAPIDLY AS WAS EARLIER PREDICTED.

(B) THE GOI'S DESIRE TO JUSTIFY ITS SUPPORT OF ANOTHER INCREASE IN THE PRICE OF OIL BY MAKING THE COUNTRY APPEAR TO BE MUCH POORER THAN IS ACTUALLY THE CASE.

(C) THE GOVERNMENT'S DESIRE TO DISSIPATE THE "BLANK CHECK" PHILOSOPHY WHICH HAS DEVELOPED AMONG LARGE SEGMENTS OF ITS OWN BUREAUCRACY.

(D) A FOURTH REASON MAY WELL BE THE IRANIAN DESIRE TO FEND OFF OTHER COUNTRIES' REQUESTS FOR ADDITIONAL FINANCIAL ASSISTANCE.

4. WHILE THE IRANIANS MAY APPEAR TO BE SPEAKING WITH MANY VOICES ON THEIR FINANCIAL PROJECTS FOR THIS YEAR, IT SEEMS TO US CLEAR THAT FOR PUBLIC CONSUMPTION THEY ARE "POOR MOUTHING IT" AND THAT PRIVATELY GOI OFFICIALS WHO UNDERSTAND THE COUNTRY'S TRUE (AND STILL VERY FAVORABLE) FINANCIAL/ECONOMIC POSITION ARE INDICATING THAT NOTHING MUCH HAS REALLY CHANGED. ALL FOREIGN EXCHANGE EARNINGS ESTIMATES, OF COURSE, ARE SUBJECT TO CHANGE DEPENDING UPON UNPREDICTABLE DEVELOPMENTS IN THE WORLD PRICE OF OIL AND DEMAND FOR OIL IMPORTS.

5. THERE IS, HOWEVER, IN SOME GOI DEPARTMENTS AND MINISTRIES A CASH FLOW PROBLEM. HAVING BECOME ACCUSTOMED TO OVERSPENDING AND GETTING AWAY WITH IT OVER THE PAST TWO OR THREE YEARS, NOW THEY ARE BEING TOLD STERNLY TO KEEP WITHIN THE LEVELS OF THIS YEAR'S BUDGET ESTIMATES. THIS POLICY DOES NOT REPRESENT AN ACROSS-THE-BOARD CUTBACK BUT MAY MEAN SOME PROJECTS HAVE TO BE POSTPONED BECAUSE OF PRICE INCREASES.

MIKLOS

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